A STUDY TO ASSESS AN EXPANDED ROLE FOR PRIVATE SECTOR TRADING HOUSES IN BRITISH COLUMBIA

Report Prepared By: Public Affairs International for the Ministry of Economic Development

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Its contents reflect views and information provided to the consultants on a confidential basis as well as a review of publicly available material. All conclusions and recommendations are, however, entirely those of the authors and should not be taken to represent the views or opinions of the Ministry or the Provincial Government.

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Henry Thiel
Pierre Alvarez
Heather Conway

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A. Analysis of Exporter Responses

Executive Summary

Mandate

On March 9, 1987, in the British Columbia Speech from the Throne, the Provincial Government announced its intention to establish "a network of privately-run trading corporations...to market and sell B.C. products and services around the world," as one component in its program designed to assist emerging British Columbia industries expand their export sales.

This report is a first step towards moving that trading house initiative forward. It is a scoping study designed to provide solid, factual background to subsequent policy initiatives and to help determine where "the trading house option" fits in the Province's international marketing effort.

Study Approach

In order to obtain the information necessary to draw meaningful conclusions, pertinent data, comments and recommendations were gathered from a broad cross-section of British Columbia exporters and trading houses and from knowledgeable practitioners and trade specialists from across North America. In all, more than seventy-five (75) interviews were conducted. In addition, prior studies in this area were reviewed and analyzed.

As the specific purpose of the study was to investigate how trading houses could assist the newly emerging and small to medium-sized exporters increase their international sales, the survey of the private sector focused on seven areas:

- value-added wood products;
- electronic manufacturing;
- computer software;
- aqua-culture;
- processed food products;
- ocean industries; and
- capital equipment manufacturing, construction and engineering design services.

Twenty-eight (28) interviews were conducted with companies in these sectors located within the Lower Mainland, in the Interior of the Province and on Vancouver Island.

The survey of the trading house sector had two goals. The first was to determine the level of activity of trading houses in B.C. with particular emphasis on the industry sectors identified above. The second was to identify which measures could lead to increased trading house activity in B.C.

Twenty-one (21) trading houses were interviewed in total. Twelve (12) are headquartered in British Columbia, six (6) are based outside British Columbia but have clients in the Province, and three (3) are not active in B.C., but are interested in the prospect. The interviews sought both factual information (volumes of transactions, services offered, financial strength, experience, etc.) as well as policy opinions (what measures could/should the province undertake, current government programs, etc.).

Conclusions

Nearly all companies in the newly emerging industries readily admit that they are deficient in their international marketing capabilities. Their deficiency usually involves one or more of the following:

- an inability to finance a sustained marketing effort;
- marketing and management personnel with limited and/or narrowly focused expertise in international marketing and with insufficient time to devote to the development and implementation of export strategies;
- a lack of understanding and knowledge of many potential export market targets and inadequate current intelligence to ensure competitiveness;

Trading houses, on the other hand, have been instrumental in exporting over $2.5 billion worth of B.C. exports annually but the vast majority have been primary products including unprocessed ores and concentrates, coal, lumber, pulp and logs. Only a limited export volume has been in high value-added commodities.

Trading houses believe that if given appropriate recognition and support by governments, they could facilitate exports of goods from many emerging industries whose products require market cultivation. They are, however, concerned about exporter shortcomings which they identify as: the lack of export know-how, marginal product competitiveness and inadequate production capacity to reliably meet export demands.

It is apparent from the data gathered, that most sectors of British Columbia's newly emerging industries stand to benefit substantially from the marketing assistance of competent

trading houses. The level of sectoral interest in forming trading house associations and the potential for increased exports by virtue of these new exporter/trading house relationships, were as follows:

- value-added wood products - strong interest and considerable potential;
- electronics - strong interest and good potential;
- processed food products - already considerable activity but room and demand for more;
- aqua-culture - strong interest and considerable potential;
- engineering and construction suppliers - limited room but good potential;
- ocean industries - limited interest and product specific potential only;
- computer software - not particularly well-suited, except for sales outside North America.

It was not surprising to find that exporters were anxious to have available, in British Columbia, a broad cross-section of qualified trading houses to support their export efforts. Eighty-five per cent (85%) of those interviewed were in favour of a Provincial Government initiative to promote an expanded trading house network in British Columbia. They were generally in favour of government initiatives to create an attractive environment for trading houses. Most were in favour of granting them equal treatment under government trade promotion programs and some suggested that some concessions such as reduced office rents at the Vancouver Trade Centre might be justifiable as a special inducement. However, over sixty-five per cent (65%) of those interviewed were opposed to government funding to finance the start-up or on-going operations of trading houses as a means of expanding the trading house community.

The trading houses interviewed also responded favourably to the Provincial Government's interest in promoting an expanded role for trading houses. More than ninety per cent (90%) were in favour of the Government's proposed initiative. Trading houses believe, that with full recognition and support of government, they could be instrumental in the expansion of international sales by British Columbia's emerging industries. Their attitude toward government financial support for new start-ups, or as inducements to outside firms to move to British Columbia or to promote new exporter/trading house relationships was particularly negative; more than ninety per cent (90%) being opposed.

This might be considered a predicable response from trading houses already in British Columbia who want to protect their turf; however, the majority of trading houses interviewed who are not already located in British Columbia and who could benefit from such a scheme were also opposed to such incentives. It is clear from the data gathered that trading houses believe that if the climate is right and the commercial opportunities exist neither the trading houses nor the exporters need special monetary inducements from government. It is their view that contrived exporter/trading house relationships based on monetary inducements would be unsuccessful and counter-productive.

Both exporters and trading houses believe that the most appropriate role for the Provincial Government is to act as a marriage broker between trading houses and exporters by providing training and intelligence and by affording trading houses equal treatment in program and policy application.

Recommendations

- We recommend that the "trading house option" be recognized for what it is - a most important option - but still only one of several options that an exporter should consider in developing an export program.

- We recommend the Province establish an "Export Strategy Centre" within the Ministry of Economic Development that would promote exporter education, assist exporters in their development of export strategies, promote mutually beneficial exporter/trading house relationships, gather and distribute vital product, producer and export opportunities data and serve as an initial point of contact for both exporters and trading houses.

- We recommend that a five-person advisory board be established as the "British Columbia Export Strategy Advisory Board", comprised of leading individuals who have experience in the development of effective export strategies, and a good understanding of the trading house function. The Board would be available for consultation by "Export Strategy Centre" staff in the development and implementation of programs.

- We recommend that the Ministry of Economic Development consider a senior level interchange program through which Ministry staff would be seconded to well-established trading houses and/or the export marketing departments of successful B.C. exporters and whereby seasoned private sector export marketing executives would be seconded to the "Export Strategy Centre".

- We recommend that Centre staff work with exporters to develop comprehensive marketing plans as a pre-requisite for government funding for export market development, outgoing or incoming missions, trade fairs, etc. Students from international marketing and/or finance classes from B.C. post-secondary institutions could be involved between semesters or on a part-time basis to facilitate the program and to develop the export skills of new entrants to the British Columbia business community.

- We recommend that officials from the "Export Strategy Centre" work with officials from a variety of agencies including the Council of Canadian Trading Houses, the Federal Business Development Bank and the Small Business Counselling Branch to ensure that suitable export education programs, including the role of trading houses, are designed and delivered throughout the Province.

- We recommend that a regular publication focusing on emerging B.C. companies and their products be distributed to trading houses across the country.

- We recommend that this report be given public distribution and that meetings be held with representatives of the trading house community and the various industry associations at an early date in order to obtain their support and co-operation.

I. INTRODUCTION

Mandate

On March 9, 1987, in the British Columbia Speech from the Throne, the Provincial Government announced its intention to establish "a network of privately-run trading corporations ... to market and sell B.C. products and services around the world," as one component in its program designed to assist emerging British Columbia industries expand their export sales.

This report is a first step towards moving that trading house initiative forward. It is a scoping study designed to provide solid, factual background to subsequent policy initiatives and to help determine where "the trading house option" fits in the Province's international marketing effort.

Why an Expanded Trading House Network in British Columbia?

While not well understood, trading houses have played an important role in Canada's international marketing effort. In 1983, export transactions by trading houses represented over 13 per cent of total Canadian exports. Significantly, trading houses accounted for more than 40 per cent of exports to non-U.S. markets.

Participation by trading houses in trade promotion varies significantly from province to province. This is evident from their concentration in certain parts of the Nation. Currently, the distribution of trading houses across Canada is roughly as follows: Ontario - 45 per cent; Quebec - 25 per cent; and British Columbia - 15 per cent.

Although only 10 per cent of the trading houses operating in Canada are foreign-owned, they account for approximately one-third of the transactions involving trading houses. These foreign-owned organizations tend to be larger and involved primarily in resource commodity exports whereas; Canadian-owned trading houses are smaller, more specialized and many operate as merchant traders, buying and selling for their own account.

The majority of export traders located in British Columbia are employed by foreign-owned trading houses. These firms concentrate their effort on high volume, resource commodity transactions, as evidenced by 1983 statistics showing trading house activity by product category: crude material exports - 48 per cent; fabricated material exports - 34 per cent; food exports - 16 per cent; and end product exports - 2 per cent. In contrast, Ontario's trading house activity

resulted in a higher level of exports of fabricated material (63 per cent) and end products (3 per cent) and a lower percentage of crude materials (23 per cent).

An expanded or re-focused trading house effort that would lead to greater exports of higher value-added products from the emerging industries would obviously prove to be economically beneficial to British Columbia's emerging industries.

If one were to look for an example of the benefits that can accrue from the extensive use of trading houses the best example, without question, is Japan. Although it is difficult to state, with any precision, the contribution of Japanese trading houses or "sogo shoshas" to Japan's total exports, it has been estimated that nine companies are responsible for over 50 per cent of all Japanese exports and imports. In addition, six to seven thousand highly specialized trading companies are estimated to account for a further 30 per cent of Japan's trade.

Although trading houses in Western Europe rarely match the volume of trade carried out by sogo shoshas, they are generally quite active, accounting for at least 15 per cent of the imports and exports of all member countries of the E.E.C. In some countries, the trading house share of international trade rises to 30 per cent. In Germany, for example, trading houses handle about 50 per cent of German exports in general, and account for over 50 per cent of German exports overseas. French trading houses handle approximately 25 per cent of all French exports and 40 to 60 per cent of all exports in the food commodity and end-product sectors. U.S. trading houses are more similar to Canadian companies in their operation and will be discussed in greater detail later in the study.

Definition of a Trading House

Due to the diverse organizational structures, functions and sizes of trading houses noted above, it is impossible to define them in precise terms. They range in size from the huge Japanese "sogo shoshas" with annual sales in the billions of dollars across a full range of products, to small, one or two-person operations which specialize in specific market niches. Some focus on specific geographic market regions, while others concentrate on narrow product range. What they all have in common, however, is that they provide a level of "know-how" on foreign markets which domestic producers do not possess and which would be difficult or economically unattractive for them to develop. The broad definition of the term "trading house" arrived at by the 1984 Trading House Task Force, was used in this study:

Companies specializing in the exporting, importing and third-country trading in goods and services produced or provided by other parties and which provide related services to these activities.

These companies may act as merchants, agents, export managers, export consortia, export cooperatives, buying houses and procurement agents, or a combination of the above.

Companies acting principally as manufacturers, wholesalers, retailers, engineering firms, freight forwarders are not considered trading houses, unless they have established a separate identified unit specializing in trading in goods supplied by non-related and related companies.

Trading houses offer a variety of services to their clients. These include some, but not necessarily all, of the following:

- market identification and selection;
- buyer identification, evaluation and selection;
- identification of product and packaging specifications;
- price negotiation;
- evaluation, recommendation and appointment of overseas agents, representatives, distributors;
- negotiating the terms of the commercial contract which includes such things as the obligations of the buyer and seller, terms of payment and how the goods will be shipped;
- financial arrangements;
- shipping arrangements;
- provision of after-sales service;
- preparation of all required export documents;
- protection against export risks (those relating to commercial and political factors, exchange rates, shipping, etc.), and
- satisfaction of claims.

Study Approach and Methods

In assembling the report, the consultants divided their research into three main sections:

- survey of the private sector, including manufacturing companies, small producers and industry associations;
- survey of the Canadian trading house sector;
- review of recent developments at the federal and provincial levels as well as outside Canada;

In the first two cases, two standard questionnaires were developed, one for trading houses and one for current and potential private-sector users of their services. The questionnaires were administered to senior executives personally and by telephone with interviews averaging approximately one hour each. The results of the structured questions were then tabulated and comments responding to unstructured questions were noted. No individual respondents are identified by name as questionnaires were coded to encourage greater candor by interviewees.

Survey of the Private Sector

As the purpose of the study was to investigate how trading houses could assist newly emerging and small to medium-sized exporters increase their sales, the survey of the private sector focused on seven areas:

- value-added wood products;
- electronic manufacturing;
- computer software;
- aqua-culture;
- processed food products;
- ocean industries; and
- capital equipment manufacturing, construction and engineering design services.

Twenty-eight (28) interviews were conducted primarily within the Lower Mainland, the Interior of the Province and Vancouver Island. Only ten (10) companies employed more than one hundred (100) employees and none was a traditional resource extracting company. Although the number of interviews was a relatively small sample, the consultants are confident that the results accurately reflect the sectors'

views due to the consistency of responses and confirmation by experts in the trading house field.

The goal of the survey was to develop background data on the seven sectors and determine what steps they believe could assist them in increasing their export sales. This involved testing the knowledge level of senior executives responsible for international marketing and sales; assessing their interest in utilizing the services of trading houses; and determining what role they see for the Provincial Government in this regard.

Survey of the Trading House Sector

The survey of the trading house sector had two goals. The first was to determine the level of activity of trading houses in B.C., with particular emphasis on the industry sectors identified above. The second was to identify which measures could lead to increased trading house activity in B.C.; whether by encouraging the development of new trading enterprises, convincing trading houses based in other parts of Canada to build up their B.C. clientele, promoting the development of joint marketing companies or co-ops in appropriate industry sectors, or by providing the environment and impetus for trading houses already in British Columbia to expand their activities.

Twenty-one (21) trading houses were interviewed in total. Twelve (12) are headquartered in B.C., six (6) are based outside of B.C. but have clients in the Province, and three (3) are not active in B.C. but are interested in the prospect. The interviews sought both factual information (volumes of transactions, services offered, financial strength, experience, etc.) as well as policy opinions (what measures could/should the province undertake, current government programs, etc.).

Policies and Programs in Other Jurisdictions

Following the report of the Trading House Task Force in 1984 (Promoting Canadian Exports: The Trading House Option) a series of developments at the federal level has occurred; the most important of which was the creation of the Council of Canadian Trading Houses, CCTH. They have raised the level of awareness of trading houses and, to a limited degree, demystified the role of trading houses. To date, however, these measures have had a much smaller impact in B.C. than in Eastern Canada, particularly Ontario and Quebec. This section reviews the changes that have taken place, seeks to explain what opportunities they provide for B.C. industries and identifies what remains to be done.

Interviews were conducted with federal officials, representatives from industry groups (the Canadian Export Association and the CCTH being the most important) and sectoral experts. Federal programs were reviewed to see what changes have occurred over the last few years affecting their goals, criteria and effectiveness.

The consultants also reviewed policy initiatives which have been undertaken by other Canadian provinces (Saskatchewan, Manitoba, Ontario and Quebec) and the United States to encourage the use of trading houses in their jurisdiction. The variety and extent of measures reviewed was enormous, but valuable lessons may be drawn from these experiences in terms of the most effective role for government.

Interviews were conducted with government officials from the various jurisdictions as well as with trading houses and industry representatives active within their borders. Secondary sources were also reviewed and analyzed as a means of assessing developments.

Conclusions and Recommendations

The final chapter of the Study summarizes the conclusions drawn from a pragmatic analysis of the data gathering and review process; outlines recommendations designed to overcome some of the deficiencies of programs introduced elsewhere while recognizing the specific needs and interests of the private sector in British Columbia; and provides an action plan for the Provincial Government intended to result in maximum industry/government cooperation.

II. BRITISH COLUMBIA'S EMERGING INDUSTRIES: INTERNATIONAL MARKETING CAPABILITIES AND ATTITUDES TOWARD TRADING HOUSES

The interviewing team conducted personal interviews with twenty-eight exporter firms from seven industry sectors plus the industry associations representing each industry area. Two large banks and one venture capital corporation, with substantial exposure to the emerging industries in British Columbia, were also interviewed.

Since the more mature resource industries have well established markets and international marketing relationships that already include the use of trading houses where deemed appropriate; the "emerging industry sectors" were selected as the focus of this study. These sectors are populated by smaller organizations that stand to benefit the most from the use of trading houses as they struggle to expand their exports. The interviews were therefore restricted to companies in the following sectors:

- value-added wood products: (primarily that segment which re-manufactures basic wood products into door and window stock, moldings, siding, panelling, stair spindles, etc.);
- electronics: (communications apparatus, energy products, electronic components and related equipment);
- computer software: (business, educational, communications and entertainment software);
- aqua-culture: (farmed salmon, shell fish and related apparatus);
- processed food products: (processed fruits, vegetables, mushrooms, seafood, etc.);
- engineering and construction: (engineering, procurement and construction organizations involved in forestry, hydro, bridge, highway, port construction activities, construction components and equipment);
- ocean industries: (submersibles, boats, marine apparatus, wetsuit, marine recreational products, etc.);

The firms vary in size from those employing as few as twenty people in British Columbia to those with staffs in excess of fifteen hundred. Export experience varies from one year to fifteen years, with the average being approximately eight years. In aggregate, these companies export some $758 million dollars of B.C. products each year. The percentage

of their total production which is exported varies from 4% to 98%, with the average being 44.5%. It is significant that 78% of the goods exported by the firms interviewed, was destined for markets in the U.S. Only 22% penetrate markets elsewhere in the world.

Executives, generally, were conscious of the fact that future growth of their organizations depended on further penetration of world markets, particularly markets outside the familiar confines of North America. As a result, they are highly committed to export expansion.

Respondents were asked to identify what they considered to be the greatest impediments to their company's overall growth and secondly to identify the impediments to increased "export performance".

The three impediments to overall growth most often mentioned were: finance (54%), production (50%) and marketing (41%). The executives suggested that governments could assist in this area by providing expanded financial assistance and/or tax relief in support of modernization and expansion, new market development programs and export promotion. Frequent reference was made to the need to expand funding through PEMD (Program for Export Market Development) and through B.C.'s Export Market Development and Promotion Program (EMDP).

Clearly, the biggest obstacle to export expansion, according to the executives interviewed was their self-acknowledged deficiencies in export marketing. These deficiencies resulted primarily from the lack of export expertise and from inadequate knowledge of markets and distribution channels (mentioned by 76% of respondents). The second most important impediment was their difficulty in resolving the product specification, volume and cost problems associated with export marketing (mentioned by 60% of respondents). Also of significance were the impediments created by a lack of export funding and by foreign government tariff and duty inequities (cited by 34% of respondents).

The majority stated that the Provincial Government could assist them best in these areas by expanding support programs designed to help companies market overseas. The elements of support most often mentioned were increased, well-focused, incoming and outgoing trade missions, PEMD-type export funding, increased training assistance and expanded services to provide market intelligence.

During the interviews, it was possible to take a rough measure of the exporters' knowledge of the international marketing process, strategy elements, support programs, financing, shipping, etc. The resulting ratings substantiated the exporters' self-acknowledged lack of in-depth expertise. Approximately two thirds were deficient in

their knowledge of export promotion programs, intelligence-gathering mechanisms, financing and shipping procedures. Only about 50% were familiar with trading houses and the services they might offer.

After only a cursory discussion of the services normally offered by trading houses, more than 80% of exporters felt that their company could derive some material benefit in using a trading house. They further indicated that they would be willing to establish a relationship with a trading house if an appropriate agreement could be negotiated.

On the basis of responses obtained, it appears that compensation for trading house services is not a major impediment. There were however, some expressions of concern about:

- the need to grant market area exclusivity to the trading house. (Exporters worry about a loss of independence and minimized direct customer contact, as well as a subsequent total reliance on the trading house for sales in a particular market);
- the ability to maintain product and customer confidentiality in situations where a trading house represents other companies in the same line of business;
- the trading house's ability to market products that require a high level of technical competence;
- the requirement to fund an export promotion program devised by a trading house.

Summary of Findings

- Companies in the emerging industries recognize that they must expand their export volumes in order to establish corporate viability and foster corporate growth.
- Corporate executives freely acknowledge that their international marketing efforts are restricted by a lack of in-house expertise and by the limitations of funds available for export trade promotion.
- At present, emerging companies rely heavily on trade missions, PEMD and B.C.-EMDP programs to enable them to make intermittent forays into new markets abroad in hopes of developing broader export markets.
- Many emerging companies have limited knowledge of the different types of trading houses operating in B.C. but most would be receptive to a relationship that would enable them to explore and develop new export markets on a professional basis.

III. TRADING HOUSES: CURRENT ROLE AND INTEREST IN NEWLY EMERGING INDUSTRIES IN BRITISH COLUMBIA

During the course of the study, the consultants reviewed the Federal Government's current trading house listing which indicates that there are in excess of 100 trading houses based in British Columbia, with at least fifty more active in, but not headquartered, in the Province. Although a number included in this listing are easily identified as true trading houses offering a broad range of services, there are a number of others that can only be considered trading houses in the very broadest sense of the word.

An examination of the list of those trading houses active in British Columbia shows good representation from the Japanese Trading House community, several large international houses owned by European and U.S. interests and numerous Canadian-owned companies. Many of these have been operating in the Province for years. There are many others that are neither well-known nor well-established. As a result, it is difficult to categorize them all and evaluate their competence.

The difficulty encountered by exporters, governments and financial institutions in determining the credentials of members of the trading house community has had a negative impact on the trading house sector. Its reputation has suffered substantially over the years because of the activities of the "backroom" operators who hold themselves out as reputable trading houses with outstanding overseas connections. Because their claims are difficult to confirm or refute, disreputable or incompetent operators have occasionally led both their clients and the government "down the garden path".

In an attempt to set some basic standards, a new organization - the Council of Canadian Trading Houses (CCTH) - was formed in 1985 as part of the Canadian Export Association. The CCTH has established standards of accreditation which must be met by a trading house before it can qualify for membership (see Chapter VI). At present, the membership is comprised of some fifty trading houses across Canada, only four of which have head offices in British Columbia.

It is unfortunate that to date the trading house community in the Province has been slow to respond to the benefits of CCTH registration. Many companies in B.C. that would clearly qualify have opted not to join. As a consequence, British

Columbia businesses have no easy way of determining which trading houses are reputable.

Twenty-one (21) trading houses were carefully selected and interviewed in the process of conducting this study. Twelve of these are in British Columbia, six (6) in Ontario, two (2) in Manitoba and one each in Quebec and Saskatchewan. Of these, four (4) are Japanese sogo shoshas, three (3) are international trading houses owned by principals outside Canada and Japan, eleven (11) are Canadian trading houses, two (2) are trading houses owned and operated by provincial governments and one (1) is a joint-venture marketing organization operated for the benefit of a group of companies.

The twenty-one trading houses represented in this sample are responsible for exporting over two billion dollars in B.C. goods and services per year. They employ over 2,000 employees in the Province of which 369 are export trading specialists. The majority are prepared to offer an impressive range of services to their clients, ranging from basic representation as an agent or broker to that of a merchant trader who purchases and takes possession of goods himself for subsequent export.

Ten of the companies interviewed concentrate entirely on the export of resource products and do very little in the secondary manufacturing area. Almost all trading houses interviewed profess to have an interest in working with exporters in the newly emerging industries in British Columbia. However, indications are that many would do so only where the exporter and his product were clearly unique or more than competitive in world markets, thereby requiring minimal effort and cost to accomplish initial market cultivation.

There has been much written and said about the fact that many overseas buyers are foreign exchange poor and that exporters must be prepared to enter into counter-trade arrangements in order to maximize their export potential. Counter-trade being a highly complex and high risk undertaking, it has been recognized that trading houses could be used extensively to conduct this form of trade.

Only a third of the trading houses interviewed have been or are presently engaged in countertrade and it was observed that, even the largest, acknowledged that it is an activity they indulge in with extreme caution. Countertrade has been undertaken quite successfully by a limited number of larger trading houses but has proven to be the downfall of others. The following outlines the involvement of the different types of trading houses in British Columbia exports.

Soga Shoshas

Soga shoshas have had a presence in British Columbia for many years. The four interviewed for this study are involved in yearly exports from B.C. of $200 million to $900 million dollars each. Their basic interest has been to procure logs, lumber, minerals, coal, chemicals and certain fish products for member firms in their own organization, and to promote the sale in Canada of their members' products. Their focus, as far as exports of B.C. goods are concerned, has been primarily on Japan and they have to date, provided only limited entrees of significance to other world markets.

They have been aggressive investors in those companies whose goods have a ready market in Japan, making them attractive to those interested in a well-heeled partner. However, it has made smaller, independent-minded companies shy away for fear of being swallowed up.

There has been only limited soga shosha involvement in the emerging industries in British Columbia to date. They indicate concern about product quality, production continuity and the lack of export knowledge among companies in these industries. This is not surprising considering the emphasis placed on quality, volume, and unique specifications in the Japanese marketplace.

These well-financed, extremely well-run trading houses are controlled by their holding companies in Japan and their focus has traditionally been to serve their acquisition and sales interests. There are indications, however, that soga shoshas are shifting their emphasis from products that are "big and heavy" (unprocessed resources) to those that are "thin and light" (manufactured goods) and to an involvement in trade not restricted to the Japanese market. Whether this new focus will lead them to work with emerging companies in British Columbia is difficult to predict. Even if this does occur, however, only a limited number of companies in the emerging industries are likely to meet the demanding qualifications of the Japanese trading houses.

International (Non-Japanese) Trading Houses

The three international trading houses that were interviewed, one English, one Danish and one U.S., have played a significant role in the export of B.C.'s forestry and mining sectors and somewhat lesser roles in fish and agricultural exports. They appear to have some interest in value-added wood products but do not appear to have a substantial interest in other newly emerging industries. They share with the soga shoshas the same concern about quality, quantity and knowledgeable/reliable management in their selection of clients.

These international trading houses are well-established companies with world-wide contacts. Their average export sales from Canada total $400 million dollars per year with average annual exports from B.C. of $130 million dollars. Their focus is not governed by the interest of a group of sister corporations, as in the case of soga shoshas, but more by the basic need to keep their extensive pipeline filled with the goods for which they have established global markets. Those interviewed appeared to be volume oriented and may not be best suited for the emerging companies whose products are in the early stages of their life cycle and thus are not yet positioned in world markets.

Although the firms currently active in British Columbia are more resource-product oriented, there are others in Eastern Canada that have established world markets for the types of goods being produced in British Columbia's emerging industries. For example, one Eastern Canadian trading house has established substantial exports for electronics firms while another has done the same in pre-fabricated building products. The question is whether they are aware of B.C.'s export capabilities in their areas of specialization and/or whether they could include B.C. products in their export effort without creating a conflict of interest with their present clients. The provision of a comprehensive catalogue of "British Columbia products available for export" to trading houses such as these would undoubtedly serve a useful purpose.

Private Sector Canadian Trading Houses

Interviews with the eleven Canadian trading houses (four in B.C., five in Ontario, one each in Saskatchewan and Quebec) revealed a broader field of interest and a wider disparity in export throughput. There were eight firms concentrating on products of secondary manufacturers outside the basic resource area. The export volume per year from Canada for one firm was only $2 million dollars while another totalled $1.5 billion dollars. Most were exporting at least some products from smaller, newly established exporters and in most cases were interested in expanding their scope of operations into the emerging industries, provided an appropriate fit could be made in their areas of specialization.

These private sector Canadian trading houses exhibited a high level of personal commitment to their suppliers. Since they are relatively small in size and handle a limited number of products, they are highly dependent on the exporter's performance. In many cases, this means that once the trading house and supplier have agreed to work together, the trading house is willing to spend considerable time and effort educating the supplier as to the complexities of the international marketplace. They view the relationship as a

long term one. For this reason, the smaller Canadian trading houses may be well-suited to working with many of B.C.'s emerging industries.

Joint Venture or Co-Operative Trading Houses

A group of forestry product companies and two groups of companies in the agricultural field (tree fruits and mushrooms), have each formed trading houses to handle the marketing of their products from British Columbia. All have been in operation for some time and all have been successful in enhancing the export performance of members who individually would not be capable of marshalling the expertise and resources necessary to launch a successful export effort.

The average export volume of these three organizations is over a hundred million dollars per year. These volumes allow them to be significant players in their chosen markets and provide sufficient cash flow to support substantial export promotion programs.

The initial organization of such joint-venture marketing organizations is often difficult because it requires competitors in the same field to relinquish their independence and share markets with one another. Organizational continuity is often subject to drop-outs as companies mature or falter. As a consequence, organizing a joint venture or a co-operative export marketing effort and sustaining a supportive membership has proven to be a difficult task in certain cases.

Government-Owned and/or Operated Trading Houses

There are currently two government owned trading houses active in Canada: AGDEVCO which is owned by the Government of Saskatchewan and focuses on dry land agricultural goods and services (primarily grains and livestock); and the federally-owned Canadian Commercial Corporation which manages export sales to foreign governments and international agencies on behalf of Canadian suppliers. A third government-owned trader is MANITRADE which still exists legally, but is totally inactive. Its role was to serve as a full service trading house for Manitoba exporters. A fourth, federally-owned Canagrex, was designed to serve as facilitator for the export of Canadian agricultural products and services but it has been inactive since 1986. It will be legally dissolved once legislation currently before the Senate is passed.

Indications are that the performance of these government-owned operations in the international marketplace has fallen well short of expectations. Suppliers have been reluctant to deal with state-run agencies due to their lack of private sector experience and concern about bureaucratic "red tape".

The private sector trading houses interviewed also expressed apprehension about government-owned or operated operations. They view them as generally unsuccessful and a duplication of services which the private sector is already able to provide. It is their view that the creation of a provincially-owned agency would be a disruptive factor in the export community in B.C.

Summary of Findings

- Trading houses in British Columbia are contributing significantly to the exportation of B.C. goods and services.

- The export of resource commodities is the basic preoccupation of Japanese and international trading houses; however, they profess a growing interest in newly emerging industries.

- Canadian owned and operated trading houses have tended to carve out a market niche in product areas that are more valued-added and less resource-commodity oriented. They appear however to focus their efforts very narrowly and have not been highly visible to the newer exporter. Most out-of-province trading houses admit they are unfamiliar with export opportunities in British Columbia.

- Countertrade is considered to be a highly-specialized and risky business that only a few of the larger trading houses are pursuing.

- The soga shosha to date have been utilized by B.C. exporters for sales to Japan. They have not provided entrees to markets outside Japan to any substantial degree.

- The services offered by the trading houses interviewed are very flexible and can be tailored to the exporters' needs. Most trading houses will act simply as commission agents or take on the complete responsibility of merchant traders. The former, merely facilitates a sale between seller and buyer. The latter, will actually purchase the goods from the B.C. producer for subsequent sale to an overseas buyer. They are willing to serve as merchant traders only for quality products with established overseas market.

- Only five out of the twenty-one trading houses interviewed had the benefit of a permanent relationship with a merchant bank that financed their transactions. Four were soga shoshas and the other was a very large American trading house.

- Only two of the twenty-one trading houses were aware of the Throne Speech comment about a "trading house network" for British Columbia. All of the others were vaguely aware, or not at all aware, of the government's interest in the trading house option.

- The major impediments to further involvement of trading houses in export expansion in British Columbia as noted by respondents, in order of their significance, are as follows: a) exporters with inadequate understanding of the export sales process and the role that can be performed by trading houses; b) products that do not meet quality expectations of foreign buyers; c) few exporters who can guarantee continuity of supply; d) government trade officers who do not recognize the value of trading houses and government export programs that do not include trading houses as participants and/or beneficiaries; and e) exporters with inadequate funding to pay for or share in the cost of market cultivation.

- Trading house principals in British Columbia believe there is an adequate number of trading houses already operating in the Province to service exporter needs. However, determining whether this is actually the case will require further in-depth research on a sector by sector basis to establish the number of firms that are export ready and the number of trading houses willing and able to assist them in penetrating their specific market targets.

IV. THE MERITS OF AN EFFECTIVE TRADING HOUSE NETWORK IN BRITISH COLUMBIA - A SECTORAL ANALYSIS

Although an examination of the overall statistical data gathered in the study indicates clearly that exporters believe an effective trading house network would be desirable, it is recognized that there are substantive differences in marketing strategies from one sector to another and it was deemed prudent to examine the pros and cons on a sector-by-sector basis. The following summary determines the extent to which trading houses are currently used, the attitude toward the use of trading houses, the number of trading houses that are marketing or have an interest in marketing that sector's products, and the degree to which both parties would support government promotion of a trading house network.

Value-Added Wood Products

This industry can be broadly sub-divided into two segments; that segment of the industry which adds value by processing raw logs into pulp and paper, lumber, shakes and shingles, and plywood; and that segment which re-manufactures basic wood products into specialty products such as door and window stock, molding, siding, panelling, spindles, etc.

Trading houses have played a significant role in the export marketing activities of companies producing logs, pulp and paper, lumber, shakes and shingles and plywood. Both the Japanese trading companies and the larger international, joint-venture and Canadian trading houses have established strong relationships with companies in this area. Their interest and participation are well-established and ongoing.

The re-manufactured sector is populated by many smaller, emerging organizations. They are often started by former employees of the larger forest-products companies with an independent bent. They specialize in specific product areas and often sell only to those foreign countries where the principals have developed personal relationships. To date, about 40% of those interviewed in this sector had utilized trading houses in their export effort. However, the majority would like to utilize trading houses to a greater degree.

Some trading houses have been reluctant to get involved with the Re-man group because of concerns about product quality and product continuity. It is evident however, that many trading houses lack information about the companies in this sector that could meet their criteria and become clients for their services.

Re-man operators, on the other hand, view trading houses with some trepidation because of their fear of losing independence and becoming reliant on a large marketing entity. They too

lack information about the trading houses that are prepared to work in their industry sector.

The Independent Lumber Re-manufacturers' Association has been working with the Council of Forest Industries to develop a promotional program designed to ensure that foreign buyers are cognizant of British Columbia's assortment of value-added wood products. The funds for this program are drawn from government funding available to C.O.F.I. This joint effort will assist the Re-man group in raising its profile abroad, however, to be effective it must be followed by a comprehensive marketing program. C.O.F.I. is not in the marketing business and will simply refer all inquiries to the appropriate firm(s).

Seaboard Lumber, a successful joint-venture marketing organization, has added a re-manufactured wood products export manager to its staff. His mission is to sell products produced by Seaboard's joint-venture participants. However, they have been successful in completing sales that included products from non-member Re-man companies. These sales have led to the development of some ad hoc relationships between Re-man companies and Seaboard and a heightened awareness of the potential benefits of utilizing a trading house or Seaboard-type organization.

Twelve of the twenty-one trading houses interviewed were involved with some aspect of value-added wood products exports and/or were interested in establishing new clients in the industry. It would appear that there are sufficient trading houses on the scene in British Columbia to serve the needs of this industry, provided that they are the style and size that producers will find acceptable.

Clearly, this is an industry sector where promotion of trading house usage would be worthwhile from all points of view.

Electronics

British Columbia is heavily populated with smaller, high-tech electronic companies, many in the early stages of their maturation. They produce products of great diversity, from high-tech communications apparatus to lithium batteries. Most lack the financial resources and the know-how to launch individual thrusts into the international marketplace and many restrict their sales effort to the United States.

Of those interviewed, one third currently use trading houses; the other two-thirds have not been in direct contact with a trading house of any kind. It is evident that the majority believe that trading houses could add immensely to their export performance and all were in favour of a promotional and educational effort by the Provincial Government

Two-thirds of the trading houses interviewed were interested in electronics exports from British Columbia. Seven were currently involved with companies and two others were in the process of negotiating relationships. It is evident that trading houses were proceeding into this sector with some caution, stemming from their concern about verification of a product's performance, the difficulties of developing product acceptance in the foreign marketplace, and the cost associated with market cultivation.

There is little doubt that trading houses can perform a valuable function in the promotion of electronics products that are world class. The biggest difficulty is to bring about a marriage between a willing, well-qualified exporter and a receptive, competent trading house.

Aqua-Culture

Product volumes from the aqua-culture industry are just now reaching the stage where they are stretching the marketing capability of the individual farmer. If the industry continues to mature at its current rate, in two years time the volumes will be of a size that will require a highly-efficient fresh seafood marketing and distribution system.

A number of trading houses are interested in working with fish and other seafood farmers including the long-established seafood packers and marketers. In fact, it would appear that the competition among interested buyers, processors and distributors will escalate during the next year or two as these trading houses attempt to attain commitments on future volumes.

A number of fish farmers are leery about committing to a single trading house, particularly one of the well-established fish packing organizations whose main thrust in the past has been the buying and selling of wild fish stocks. They are concerned about losing control of prices and are in a quandary as to the relative merits of marketing on their own, joining a co-operative, selling through traditional fish packers, or developing arrangements with trading houses that have broader market contacts.

Generally speaking, the aqua-culture organizations interviewed are in favour of a government initiative to ensure that there is ample export marketing support for their industry.

Computer Software Industry

British Columbia has an impressive concentration of computer software designers. Their software products thus far have been sold primarily in the United States and Canada, using major software publishers, computer retail chains and

computer manufacturers to distribute their products. In this industry, there seems to be less interest in the utilization of trading houses by the producers themselves. Similarly, few of the trading houses interviewed believe they could play a significant role in software exports.

As long as the United States is the primary destination of exports from this sector, British Columbia computer software firms will be able to access the distribution systems on their own or through their normal channels. In the event that products are customized for the Pacific-Rim countries or Europe, then trading houses may be able to provide the export marketing expertise not available in-house.

Processed Food Products

Processed food product exporters and trading houses have worked together extensively over the years in British Columbia. This industry lends itself well to this form of marketing relationship, and a substantial number of trading houses concentrate, to some degree, on exportation of processed food products.

The industry continues to encounter marketing difficulties which stem from the impact of marketing boards on costs and prices as well as tariff inequities between Canada and foreign countries. Companies in this sector realize that their competitive position in world markets is tenuous and that they must bring all possible international marketing expertise to bear in order to maintain their export volumes. For this reason, the majority interviewed (75%), were in favour of Provincial Government programs to ensure that the trading house option was fully utilized.

Engineering and Construction

British Columbia's diverse engineering and construction industries have experienced a roller-coaster ride of "boom and bust" in recent years. At times, projects in Canada and the United States have kept workloads high. At other times projects in North America have been scarce, and firms have had to become more aggressive in pursuing engineering and construction projects world-wide in order to survive. As a consequence, they have become accustomed to working in a wide variety of marketing and promotional relationships as required by a specific foreign environment in order to meet sophisticated competition from abroad. For this reason, they utilize dealers, agents, foreign consultants, joint-venture arrangements, consortia and trading houses.

The trading houses that are involved in capital-project marketing are most often the soga shoshas or larger international and Canadian trading houses that can contribute

financing or other resources in addition to their influence in the buying country.

British Columbia construction equipment manufacturers and exporters who become involved as suppliers on major construction projects overseas tend to "piggy-back" the arrangements developed by the engineering organizations and thereby become involved with trading house organizations. Approximately 40% of the trading houses interviewed were actively engaged in export marketing for this sector on a selective basis. B.C. engineering and construction skills are well regarded internationally and the trading houses expressed continuing interest in joining forces with these companies.

The engineering and construction firms interviewed in this study have a high regard for the contribution that can be made by trading houses and every firm contacted believes that the promotion of a trading house network by the provincial government would be a useful endeavour.

Ocean Industries

This industry sector is a mix of small-to-medium size organizations producing a broad spectrum of products ranging from remote control submersibles to marine accessories.

Submersibles and other high-tech apparatus are most often marketed on a one-of-a-kind, special applications basis where there is little opportunity for a trading house to contribute. Boats and marine and recreational accessories do offer more opportunity for trading house involvement but on a rather selective basis. It was understandable, therefore, that the producers contacted were less than enthusiastic about the need for a trading house network and the desirability of government promotion of trading house use for their industry.

Three of the trading house organizations interviewed indicated an interest in marketing ocean industry products. However, the overall assessment of prospects in this industry sector was not high.

It is difficult, without more intensive investigation, to determine whether this low level of interest in ocean industry/trading house joint marketing is due to the fact that neither of the parties understands the attributes of the other, or to the fact that prospects for trading house utilization are really very marginal.

Summary of Findings

- There is already a limited amount of activity between trading houses and producers in the value-added wood products sector; however, there remains considerable demand for further promotion of the trading house option.

- A small number of electronics manufacturers are currently using trading houses and nearly all other interviewees expressed interest in exploring the potential for this option. This sector is well-suited to further trading house promotion.

- The aqua-culture sector is about to enter the international marketplace and both producers and trading houses expressed strong interest in exploring joint marketing possibilities.

- The computer software industry was not considered to be particularly well suited for the trading house option unless companies expand exports to markets outside North America.

- There is history of trading house activity in the processed food products sector, particularly by co-operative marketing organizations, but there remains considerable potential for expanded use of trading houses.

- Both trading houses and engineering and construction suppliers expressed strong interest in the trading house option, but due to the need for large dollar value international finance mechanisms, the number of players is limited. Of note, is the possibility for small suppliers to "piggy-back" sales on engineering contracts.

- There is only spot interest by suppliers and traders in the ocean industries to take advantage of the trading house option.

V. THE PRIVATE SECTOR VIEW OF GOVERNMENT'S ROLE IN PROMOTING TRADING HOUSE USE

More than 85% of exporters and more than 90% of trading houses interviewed, favored government involvement in the promotion of trading house use in British Columbia. They were generally in favour of government initiatives to create an attractive environment for trading houses. Most were in favour of granting them equal treatment under government trade promotion programs and some suggested that limited concessions such as reduced office rents at the Vancouver Trade Centre might be justified as a special inducement. However, over sixty-five per cent (65%) of exporters and ninety per cent (90%) of trading houses interviewed were opposed to government funding to finance the start-up or on-going operations of trading houses as a means of expanding the trading house community. It was the general consensus that such monetary inducements would promote associations and export market programs that were not commercially viable.

A more detailed analysis of the views expressed by exporters, trading houses and financial institutions are as follow:

Exporters

In every industry sector, except two, more than three quarters of the respondents would like to see more utilization of trading houses and would like to have the government proceed with the promotion of an expanded trading house network. The two exceptions are the computer software and the ocean industries sectors. As noted elsewhere in this report, these two industries may not be able to utilize trading houses as effectively as others.

Exporters generally were quick to acknowledge their international marketing limitations and would welcome government assistance in helping develop appropriate linkages with trading houses that could help them accelerate their expansion in the international market. The role for government most frequently recommended was one of providing exporters with comprehensive information regarding trading houses operating in their industry sector. Exporters admitted to a poor understanding of who the trading houses are and what support they can offer in terms of market evaluation, promotion, buyer identification, selling, financing, shipping, etc. Many were unaware that, given the right conditions, a trading house would act as a merchant trader and thereby transform an export transaction into a domestic transaction.

In many cases, an exporter had no previous contact with a trading house of any kind and would be interested in having government sources provide data on which trading houses marketed his type of product and in what export markets.

Thirty-five percent of those interviewed indicated that they would not be opposed to generally available incentives to trading houses to attract them to the Province. The incentives mentioned were reduced taxes, reduced rents in the trade centre, and in one case, loan support based on confirmed B.C. exports. Outright financial grants to promote their involvement in B.C. was not an incentive recommended by respondents.

Trading Houses

More than 90% of the trading houses interviewed are in favour of government promotion of trading house/exporter linkages as an effective means of expanding B.C.'s exports. However, more than 90% also believe that government should not provide special incentives to either the trading house or the exporter to promote trading house utilization. It is their view that special incentives, especially those of a monetary nature, will lead to the creation of exporter/trading house relationships that have no commercial viability either because the exporter's product does not meet international specifications or because the trading house/exporter team does not have the expertise to be effective in the marketplace.

Trading house executives believe that government can become effective "marriage brokers" for exporters and trading houses by:

- educating B.C. exporters as to what expertise is required in international marketing and how trading houses can often be the most cost-effective way of obtaining this needed expertise (mentioned by 67%);

- ensuring that trading houses are treated by government officers and covered in government export programs on an equal basis with individual exporters (mentioned by 55%);

- providing both the exporter and the trading house with comprehensive data respecting potential partners for an exporter-trading house relationship that has a strong chance of success (mentioned by 55%).

Trading house executives believe there is an adequate number of trading houses operating in British Columbia. They are outspoken in their opposition to special recruitment of new entrants to British Columbia unless the latter clearly cover product areas and/or markets not serviced by well-established firms already in the Province. They were also of the view that firms with offices outside of British Columbia, could be just as effective in promoting B.C. exports and should not be induced to set up superfluous organizations in the Province. Several respondents reinforced this point by emphasizing that

to be effective in the international marketplace, trading houses must be able to sell products from many jurisdictions and the location of their headquarters had little impact on their performance. This point was said to apply equally to interprovincial activity as to the export of goods and services of companies located in smaller communities by trading houses headquartered in major, urban centres.

Financial Institutions

Those interviewed in the financial services sector were conversant with the need to bolster the international marketing capabilities of firms in the emerging industry sectors and believe that government could provide a useful service in promoting the utilization of "well-qualified" trading houses.

The international centres of banks have been utilized by client exporters to obtain data on dealers, agents, representatives, trading houses, and local bank officials have responded to the best of their ability. However, there is now a move by major banks to downsize their international centres in Vancouver. This will restrict the extent to which they can provide advice and counsel.

Financial institutions do not recommend monetary incentives to promote trading house utilization on the basis that it may lead to non-economic unions of exporter and marketer.

Summary of Findings

- More than 85% of exporters and 90% of trading houses interviewed believe that the Provincial Government should carry out a program to promote expanded use of trading houses.

- A promotional program involving the provision of comprehensive information on interested exporters and available trading houses would be well received by the parties.

- Direct financial incentives to attract trading houses to British Columbia or to fund the costs associated with the retention of trading house services were rejected as inappropriate by more than 90% of trading houses and 65% of exporters interviewed.

- Both parties support the inclusion of trading houses under universally available export marketing programs where they are utilized to introduce British Columbia products in the export marketplace.

- Educational seminars for exporters that increased their understanding of the international marketing process and the role that can be performed by trading houses to support exporting companies were heartily endorsed by both parties as an important part of any future government program.

VI. POLICIES AND PROGRAMS IN OTHER JURISDICTIONS: OTTAWA, THE PROVINCES AND THE UNITED STATES

Before proceeding to a summary of findings and recommendations, it is useful to review briefly the policy initiatives concerning trading houses which have been undertaken in other jurisdictions, the federal level, other provinces and outside Canada. Such a review will not only permit an evaluation of previously attempted strategies, but more importantly will provide information on the trading house environment at the national and international levels.

Federal

On January 4, 1984, the Minister for International Trade announced the creation of a Task Force whose mandate was:

i) to assess the importance of the private trading house sector in Canada;

ii) to evaluate the potential of the trading house sector in developing exports of Canadians goods and related services;

iii) to identify measures to be taken by the sector itself, the government, and other parties in order to enhance trading house performance in exporting Canadian goods and related services with specific referral to manufactured goods.

The Task Force, under the chairmanship of Tom Burns, reported nearly a year later. The report is widely regarded as the most comprehensive analysis of the trading house sector in Canada. It made thirty-two recommendations designed to put trading houses on an equal footing with other, more traditional exporters, to give trading houses a higher profile and to address some of their financing and insurance needs.

These recommendations were used by the federal government and the private sector as the basis for a number of significant organizational and policy changes. These include:

- The formation of a national organization, namely the Council of Canadian Trading Houses, within the Canadian Export Association which has launched programs to accredit trading houses (must be in operation for at least one year, have references from two suppliers, two members of the CCTH and a bank manager or similar professional), as well as promote their use through educational seminars across Canada and through various publications.

- Trading houses have been given access in their own right to certain government services (at home and abroad) and government support programs (PEMD, trade missions, etc.).

- A trading house directorate within External Affairs has been established as a focal point for the development of the trading house option.

- Potential overlaps between the operation of the federally-owned Canadian Commercial Corporation (CCC) and the private sector have been resolved and the CCC now accepts the role of private trading houses and the CCTH.

- The Export Development Corporation (EDC) and the Federal Business Development Bank (FBDB) have added rapid response financing and insurance coverage programs to provide for some of the special needs of trading houses.

- Concerned government agencies, including the Canadian International Development Corporation (CIDA) and the Department of Supply and Services (DSS) have recognized, at least to a limited degree, trading house tenders as legitimate.

Despite these impressive accomplishments, a number of recommendations have not been acted upon. These include:

- a higher level of bank financing for trading houses;

- extended PEMD coverage to accommodate multiple year grants;

- certain conflict of interest aspects between private sector trading houses and government-owned or operated trading houses and marketing boards;

- full equity of participation and treatment for trading houses in all government programs; and

- special tax incentives for exports.

Over the past twelve months, the enthusiasm for continued promotion of the trading house option by the federal government has begun to wane somewhat. While the Trading House Branch continues to work closely with the CCTH and the Quebec Association of Trading Houses (AMCEQ) to promote trading houses, it is not receiving cross government support. Certain departments and agencies, notably the Department of Regional Industrial Expansion (DRIE) and the FBDB prefer to act on their own. For example, the FBDB has taken a $500,000 equity position in Canada Trade Group Inc., a joint venture trading house between the Korean company, Samsung and SNG of

Montreal, on a pilot project basis. Other departments pay only lip service to the trading house concept.

In conclusion, the federal initiatives have helped the trading house sector, but the activity to date has met with greater success in Ontario and Quebec where additional provincial initiatives were also launched. In addition, the federal programs have been aimed at exports generally and not targeted at specific industries with the result that small to medium-sized industries have been unable to take maximum advantage of the trading house option.

Ontario

The Government of Ontario initiated a series of changes to export programs following the publication of the Burns Report; however, the emphasis on promoting the trading house option has, in recent years, declined somewhat in importance. For instance, where once the Ministry of Industry, Trade and Technology employed three individuals, one of whom had trading houses as their major responsibility, the Ministry has now assigned the area to one senior consultant who handles trading houses in addition to a host of other duties. In 1985, the Government of Ontario opened all programs designed to promote exports, to trading houses. Although access to these programs is more open for CCTH accredited trading houses, non-accredited trading houses are given consideration if, in the estimation of the program officer(s), they appear to meet the criteria required.

The programs to promote exports, which are available to trading houses, include: the Export Manager for Hire Program (Government will pay half the salary of an export manager for up to 12 months--24 months for export consortia and trade associations); The Trade Expansion Fund for Northern Ontario (matches out-of-pocket marketing expenses, up to $15,000 over any 12 month period, incurred by manufacturers, trading houses, marketing consortia, trade associations and companies offering tradeable services); and the Trade Expansion Fund to Overseas Markets (operates in the same manner as the Fund for Northern Ontario). It should be noted that the funds neither compete with, nor replace other marketing support programs such as PEMD, nor are participants barred from receiving support from both sources. In addition, Ontario has held two major seminars of its own to promote trading houses and participates extensively in CCTH/CEA seminars and conferences.

Although Ontario moved, in 1985, to form an Ontario association of trading houses, the Provincial Government abandoned the project when it became clear that the federal government was moving in that direction with the CCTH, and the potential for overlap in activities made the Ontario association impractical.

The official presently charged with responsibility for trading houses believes that there should be someone in the Ministry with sole responsibility for the area; however, he also recognizes the advantages of the present situation. Because he also acts on behalf of the Associations for Mining, Forestry (Equipment), Construction, Agriculture, Pulp and Paper, and Oil and Gas to develop and promote their products for export, he is uniquely positioned to pass information and contacts in these high export areas to trading house operators and vice versa.

Quebec

Shortly after the publication of the Burns Report, the Quebec Government gave financial and other assistance which enabled the creation of the Quebec Association of Export Trading Houses (AMCEQ). The Association receives approximately $114,000 per year from the Province over a four year period. In addition, the Quebec Government pays the cost of two to three trading house seminars every year. The federal government has committed up to $500,000 in funding, over the next three years, to enable AMCEQ to develop and operate a computerized trade leads data base system.

At present, there is one individual in the Quebec Ministry of External Affairs with sole responsibility for trading houses. As is the case in Ontario, he is also responsible for other trading associations. The Government of Quebec never seriously considered the option of creating a provincial trading house and is satisfied that promoting the trading house option to manufacturers, in cooperation with AMCEQ, has proved relatively successful. Echoing a comment made time and again by those involved in the promotion of trading houses, the Quebec official indicated that although the process was slow, the results to date were positive and expected to improve further.

The Province is now engaged in setting up, with AMCEQ, a program to train international traders with a view to placing trainees with trading houses. The program will be divided into two parts. The first will be open to anybody and will be a 30 hour information program for potential exporters designed to familiarize them with trading house capabilities and techniques. The second program is somewhat more ambitious in that it will aim to train individuals who, on completion of the course, will be placed in trading houses as interns and will ultimately receive certificates or diplomas indicating their successful completion of the training. The government and the Association hope to increase both the actual and the perceived level of professionalism in the trading house sector with this program. As in other jurisdictions discussed herein, Quebec has improved trading house access to all of its export promotion programs.

Manitoba

In 1973, the Government of Manitoba created a provincially-owned trading house MANITRADE, through the Manitoba Trading Corporation Act. It was described in the Act as the successor to the Manitoba Export Corporation, and was charged with carrying out activities which would "encourage, develop and increase Manitoba exports and trade". These activities included having the Corporation:

a) perform as an export agent by selling Manitoba products and merchandise or services on behalf of Manitoba suppliers in markets outside Manitoba and charge the suppliers commissions for arranging the transactions;

b) perform as an export merchant by purchasing products and merchandise or services from Manitoba suppliers and selling such products and merchandise or services in markets outside Manitoba;

c) purchase products, merchandise or services in any other Canadian province to supplement Manitoba's when required to obtain or retain an order or contract in a market outside Manitoba;

d) purchase merchandise from foreign suppliers, and arrange compensation (reciprocal or countertrade) when such a transaction will enhance the opportunity to make a profitable sale of Manitoba products, merchandise or services;

e) finance exports as specified in (b), (c) or (d) by extending credit to agents, distributors and organizations, but purchase from Manitoba suppliers at their normal terms of trade;

f) appoint agents, distributors or other organizations, for markets outside Manitoba; and establish offices in or out of Canada, for the purpose of carrying out the intent of the Act;

g) provide Manitoba suppliers with advice and expertise on exporting;

h) organize exhibits, trade fairs, seminars and trade and sales missions to promote export and trade of Manitoba products;

i) initiate and develop original and exclusive brand names for selected Manitoba merchandise and promote, advertise and sell such merchandise under the brand name in markets outside Manitoba; and,

j) purchase products and merchandise for consumption in Manitoba.

MANITRADE was in operation from 1973 to 1981. Virtually all of the Provinces efforts in the trading house area were devoted to MANITRADE, and there was only a limited degree of interdepartmental co-ordination to assist exporters.

The general impression is that MANITRADE was unsuccessful for a variety of reasons. First, the Corporation had to compete with private companies for both contracts to export and reliable suppliers. Second, there was a limited supply and variety of products, merchandise and services available for export, as the Corporation, despite a mandate to purchase from other provinces in order to obtain or retain contracts, was effectively limited to exporting Manitoba products. This made putting together package deals involving a wide variety of products very difficult. Third, MANITRADE did not engage in countertrade, which increased quite substantially over the period MANITRADE was in operation.

During its eight year period of operation, MANITRADE completed a total of 592 transactions worth a total of $4,911,487.

Saskatchewan

AGDEVCO, the Agricultural Development Corporation of Saskatchewan, was formed as a Crown corporation by the Government of Saskatchewan in 1981. While the Corporation is Crown-owned, it is not Crown-funded. Unlike MANITRADE, AGDEVCO does not operate under the constraint of province-specific trade. The Corporation may and does operate outside the province. It acts as the project manager for a number of CIDA and other development agencies (i.e. World Bank) and thus must have access to a wide range of services and products for use overseas. Most projects focus on dry land agriculture so that the goods and services involved are, by definition, usually from Saskatchewan.

AGDEVCO does not receive government funding and has remained quite small. As it is primarily involved in development project management, it has not raised the ire of the private sector, but nonetheless many question the value of the entity.

United States

U.S. trading companies operate in much the same fashion as Canadian trading houses; however, very little is known about their share of overall U.S. trade. There are an estimated 2,000 export trading companies in the U.S., the largest of which are Getz Ltd., Phillips Brothers Ltd. and Connell Inc., each with sales of over $500 million annually.

One U.S. trading house, which received much fanfare upon its formation, was Sears World Trade (SWT), a full service global organization, owned by the Sears retail giant. Headquartered in New York, with offices throughout the world, SWT attracted well-known staff, including the current head of the U.S. National Security Council, Frank Carlucci, but never really established itself in the international marketplace despite the well-established distribution network of its parent. Observers cite its high overhead costs and lack of traders with sufficient expertise as reasons for its spectacular fall. It has been disbanded, with a small group of former employees taking over its limited business base.

The U.S. passed the Export Trading Company Act in 1986, in order to increase U.S. exports of goods and services by encouraging more efficient provision of export trade services to U.S. producers and suppliers. The Act established the Office of Export Trading Company Affairs and mandated it to, among other things, sponsor conferences and seminars on the use and formation of trading companies; and initiate a Contact Facilitation Service to bring together trading companies and suppliers. The Contact Facilitation Directory is often used as a sourcing reference guide by trading companies. The Act also permits banks to own and operate trading companies, in recognition of the fact that banks possess a wealth of expertise in the area of financing both at home and abroad.

As a result of U.S. initiatives, the export trading company sector has reported an increase in its business and a definite increase in business awareness of the potential role of trading companies in exporting.

The formation of bank-affiliated export trading companies has slowed somewhat since the initial impact of the Act in 1986. The major reason for this, according to officials at the Office of Export Trading Company Affairs, has been the highly restrictive approach of the Federal Reserve in its administration of the Act. At present, the Senate Omnibus Trade Bill contains a number of amendments addressing the constraints contained in the Act. The Senate Bill is expected to go to conference with the Congress' Bill during the autumn. The proposed amendments, if adopted, would likely act to increase the formation and/or success of bank-affiliated trading houses as they would confer on the banks the right to export their own services and allow a larger percentage of their revenues to come from third country trade, rather than via direct export.

The Office of Export Trading Company Affairs at the Commerce Department also provides anti-trust protection to exporters through its Export Trade Certificate of Review Program. Trading companies and other exporters are effectively guaranteed protection from prosecution under anti-trust

legislation once they have been issued a certificate. This allows exporters to put together export deals which would, in domestic terms, be deemed to violate fair competition laws.

It is interesting to note that state governments are becoming more interested in promoting exports through trading companies. The state of North Dakota, for example, is setting up a state trading company to promote the export of its specialty agricultural products. The State already has a state-owned bank and grain elevator and will draw on the expertise and resources of both these institutions to assist with the trading company.

Summary of Findings

- Following the Report of the Trading House Task Force, the federal government has undertaken a number of steps which have encouraged the use of trading houses. The effects of these have been felt primarily in Ontario and Quebec where the provincial governments also launched programs.

- The Council of Canadian Trading Houses has raised the profile of the trading house option, but plays only a small role in B.C.

- While many officials and programs at the federal and provincial levels now treat trading houses more fairly, there remains a bias against and a suspicion of trading houses in many quarters, which continue to hinder the development of the trading house option in Canada.

- Government-owned or operated trading houses have met with only very limited success. They are treated with suspicion by exporters and are opposed by private sector trading houses as an unnecessary duplication of services.

- The U.S. government has moved aggressively in its promotion of the trading house option; however, while the results have been positive, they have not been as impressive as hoped for.

VII. PROMOTING A PRIVATE SECTOR TRADING HOUSE NETWORK IN B.C.: CONCLUSION AND RECOMMENDATIONS

The problem faced by many exporters, or potential exporters, is that they lack the expertise and/or market intelligence necessary to develop market specific export strategies and the appropriate mechanisms to implement them. This deficiency in international marketing management capability makes it difficult for exporters to properly analyze product, price, promotion and distribution requirements from an export perspective and to devise marketing strategies for identifiable market targets overseas. Without these strategies in place their forays into new markets are often ineffective, whether made on their own or in concert with an agent or dealer whose selection may have been inadequately considered.

With this in mind, it is apparent that most sectors of British Columbia's newly emerging industries could benefit substantially from the marketing assistance of competent trading houses. The level of sectoral interest in forming trading house associations and the potential for increased exports by virtue of these new exporter/trading house relationships are as follows:

- value-added wood products - strong interest and considerable potential;
- electronics - strong interests and good potential;
- processed food products - already considerable activity but room and demand for more;
- aqua-culture - strong interest and considerable potential;
- engineering and construction suppliers - limited room but good potential;
- ocean industries - limited interest and product specific potential only;
- computer software - not particularly well suited, except for sales outside North America.

The Province of British Columbia can provide valuable assistance to these emerging industries as they grope for ways and means to expand their market horizons. This study indicates clearly that, from the exporter's point of view, there is a need for government assistance in three areas:

(1) education, advice and counsel on marketing strategies generally and on the use of trading houses or other marketing organizations

specifically;

(2) access to reliable information that will enable exporters to determine what trading houses (or other marketing organizations) are active in their product area, and provide information regarding their capabilities, credentials, etc.

(3) continued support, of their export endeavours through trade missions, fairs and PEMD type programs.

Trading houses, on the other hand, have indicated a need for Provincial Government assistance in two principal areas:

(1) to establish clearly within all government ministries that trading houses are entitled to equal consideration in the delivery of programs, policies and trade intelligence; and

(2) to make available to trading houses information on emerging exporters that will allow them to determine which firms would make effective partners in their export endeavours.

In essence, the requirement is for education and training, information gathering and distribution as well as for the continuation of government sponsored export promotion programs. It is the private sector's opinion that profitable relationships will result from a well considered match of exporter and trading house and contrived relationships based on monetary inducements would be unsuccessful and counter-productive.

In other jurisdictions in Canada, the trading house option has been promoted by establishing a "trading house" directorate within government to act as a focal point from which a promotional effort is conducted. Trading house organizations, such as the CCTH and the AMCEQ, are then conscripted to assist in the education of interested parties, including exporters, banks, government officials and others. Although these efforts have been well received and have led to a limited amount of incremental trading house activity, they are so narrowly focused that they have tended to lose momentum rather quickly.

It is our recommendation that the "trading house option" be recognized for what it is - a most important option - but still only one of several options that an exporter should consider in developing an export program. For this reason, we recommend that the Province establish an **"Export Strategy Centre"** within the Ministry of Economic Development that would serve as a focal point for exporters, trading houses

and others. It could be assigned the following responsibilities:

(1) to promote educational programs designed to teach exporters and potential exporters the critical aspects of the "export marketing process", including a systematic method for developing sound export strategies, the various mechanisms that can be used to pursue each strategy, and the manner in which trading houses can play an important, supportive role;

(2) to develop, maintain and distribute information to exporters, trading houses and other British Columbia organizations regarding:

- B.C. exporters (their products and export capability),
- trading houses (product and geographic interests, credentials, etc.), and
- export opportunities and other data essential to the development of effective market strategies and relationships.

(3) to serve as an initial point of contact and advisor to firms that need assistance in developing a marketing plan, revising market strategies, and determining an effective marketing partner for specific products or for special geographical market targets, etc.

(4) to recommend government programs that are designed to develop effective export marketing capabilities and relationships in the Province.

The broader focus of the "Export Strategy Centre" will enable it to promote an expanded trading house sector in British Columbia but at the same time ensure that it does so with full appreciation of the needs and strategies of individual organizations and/or industry sectors. It will, moreover, be able to undertake the important task of assisting the private sector in raising its level of competence in export marketing management by providing strategy training, advice and the critical information required by the exporter in pursuing export objectives.

Clearly, the "Export Strategy Centre" would have to be sensitive to the needs of the private sector exporter and the trading houses. For this reason, we would make the following three recommendations. First, **we recommend** that the Ministry consider a senior level interchange program through which Ministry staff would be seconded to well-

established trading houses and/or to the export marketing departments of successful British Columbia exporters and whereby seasoned private sector export marketing executives are seconded to the "Export Strategy Centre".

Second, **we recommend** that a five person advisory board be established as the **"British Columbia Export Strategy Advisory Board"**. It should be comprised of leading individuals with experience in the development of effective export strategies, who have a good understanding of the trading house function, and who would be available for consultation by "Export Strategy Centre" staff in the development and implementation of their mandate.

Third, **we recommend** that Centre staff work with exporters to develop comprehensive marketing plans as a prerequisite for government funding for export market development, outgoing or incoming missions, trade fairs, etc. Students from international marketing and/or finance classes from B.C. post-secondary institutions could be involved between semesters or on a part-time basis to facilitate the program and to develop the export skills of new entrants to the British Columbia business community.

Educational programs are already being offered by a variety of agencies including the CCTH, FBDB and the Small Business Counselling Branch. **We recommend** that officials from the "Export Strategy Centre" obtain their co-operation and that of other educational institutions to ensure that suitable export education programs including the role of trading houses, are designed and delivered <u>throughout the Province</u>.

The development of comprehensive data regarding companies that are "export ready", trading houses, other marketing agencies, market opportunities, foreign competition, etc. is undoubtedly a matter of correlating hugh amounts of data, some of which is in the Ministry and gathering additional data from the Federal Government and other accessible sources. **We recommend** that this data be "computerized" for general use and be summarized in a regular publication highlighting British Columbia's emerging industries and their products. This should be distributed to trading houses across the country.

The private sector, we believe, will respond affirmatively to these undertakings by the Ministry. **We recommend** that this report be given public distribution and that meetings be held with representatives of the trading house community and the various industry associations at an early date in order to obtain their support and co-operation.

APPENDIX "A"

ANALYSIS OF EXPORTER RESPONSES

	V.A.W.P.	ELECTRONICS	SOFTWARE	AQUACULT.	FOOD PROD'S	ENG.&CONST.	OCEAN IND.	TOTAL SAMPLE
Exports/Total Prod. (avg)	60%	28%	66%	72%	19%	40%	35%	45%
U.S. Exports/Total Prod. (avg)	44%	18%	64%	72%	7%	20%	30%	36%
Non U.S. Exports/ Total Prod. (avg)	16%	10%	2%	0%	12%	20%	5%	9%
Export Impediments								
lack of expertise	40%	66%	75%	33%	50%	66%	66%	56%
lack marketing info.	40%	0%	25%	0%	50%	33%	33%	20%
production problems	80%	33%	25%	100%	50%	33%	33%	2%
shortage of funds	20%	66%	75%	0%	0%	33%	33%	34%
product price	40%	0%	0%	33%	100%	33%	0%	32%
product spec.'s	20%	33%	0%	33%	0%	0%	33%	16%
product capacity	40%	33%	0%	33%	0%	0%	0%	8%
Use Trading House Now	40%	33%	25%	0%	50%	25%	33%	30%
Use TH for non-Japan	20%	0%	0%	0%	0%	25%	33%	12%
Contacted by TH	40%	33%	33%	67%	100%	25%	67%	50%
Would Use TH	80%	100%	75%	67%	100%	100%	34%	30%
Prov. Should Promote TH	100%	100%	75%	100%	75%	100%	33%	85%
Incentives for TH's	17%	34%	50%	0%	0%	100%	33%	34%
Export Assistance Needs								
more missions abroad								36%
more buyer missions								32%
more export funds								29%
more export intell.								25%
more export training								25%
Impediments to TH Use								
conflicts/confid.								21%
exclusivity clause								21%
lose buyer contact								18%
need technical rep.								18%
cost of promotion								11%